

VIS

Credit Rating Company Limited

WIRES AND CABLES

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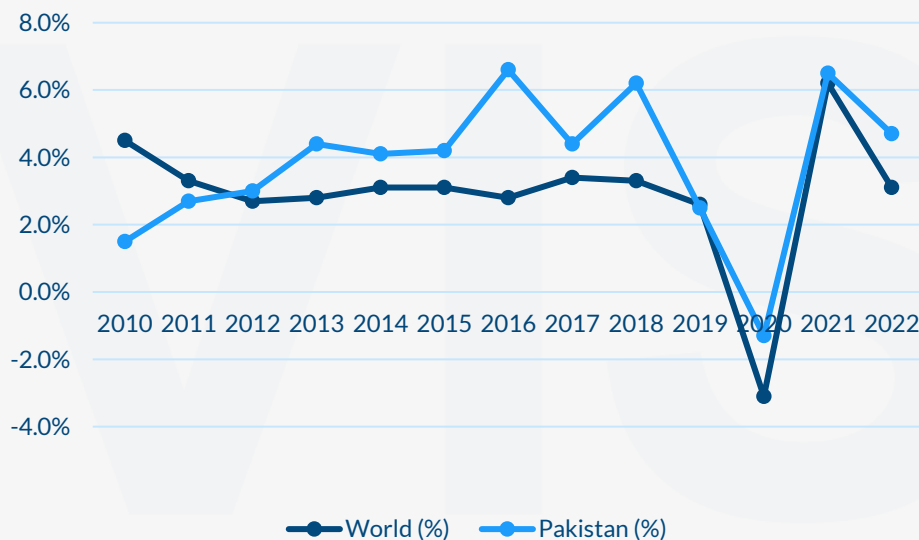
INTRODUCTION

Wire and cable refer to an uninsulated single conductor, primarily composed of copper or aluminum, facilitating electricity transmission. Communication and energy cables, on the other hand, comprise two or more insulated wires encased in a single jacket for transmitting data, electricity, or both. Communication cables typically operate at lower voltage levels compared to regular energy transmission cables. The local market primarily produces aluminum and copper cables, while the international scope includes fiber optic cables. Fiber optic cables, designed for long-distance, high-performance data networking, consist of glass fiber strands within an insulated casing. Sales channels encompass OEM and aftermarket, serving various sectors like energy, telecommunications, construction, manufacturing, automotive, medical equipment, and other end users.

ECONOMIC OVERVIEW

GLOBAL

The global economy faces subdued growth amid heightened uncertainty. According to the IMF's latest World Economic Outlook Update (January 2024), global GDP growth is estimated to decelerate marginally from 3.4% in FY22 to 3.1% in FY23, followed by a slight recovery, expected to reach 3.2% by FY2024. Various challenges persist, impacting economic activity worldwide. Globally, Central banks have significantly raised interest rates to counter inflation, leading to tightened financial conditions. Geopolitical tensions, such as the Russia-Ukraine war, have exacerbated supply chain disruptions, energy and food crises, and security concerns on a global scale. Lockdowns in China to manage new Covid-19 outbreaks have affected manufacturing and trade flows, leading to inflation. As a result, increasing living costs, segmented labor markets, weaker fiscal support, and elevated debt levels constrain consumer purchasing power and confidence, with limited government space for stimulus measures.



PAKISTAN

In FY23, Pakistan’s economy faced a multitude of challenges. The war in Ukraine led to supply disruptions, while the country was still grappling with the aftermath of the previous year’s floods. Political uncertainties further compounded these issues, along with inflation, currency depreciation, and dwindling forex reserves. In response, the State Bank of Pakistan raised interest rates, and the government implemented import restrictions, increased energy prices, and raised corporate taxes. However, these fiscal and monetary measures resulted in supply chain disruptions, contributing to a GDP contraction to 0.29% in FY23 compared to 5.7% in FY22.

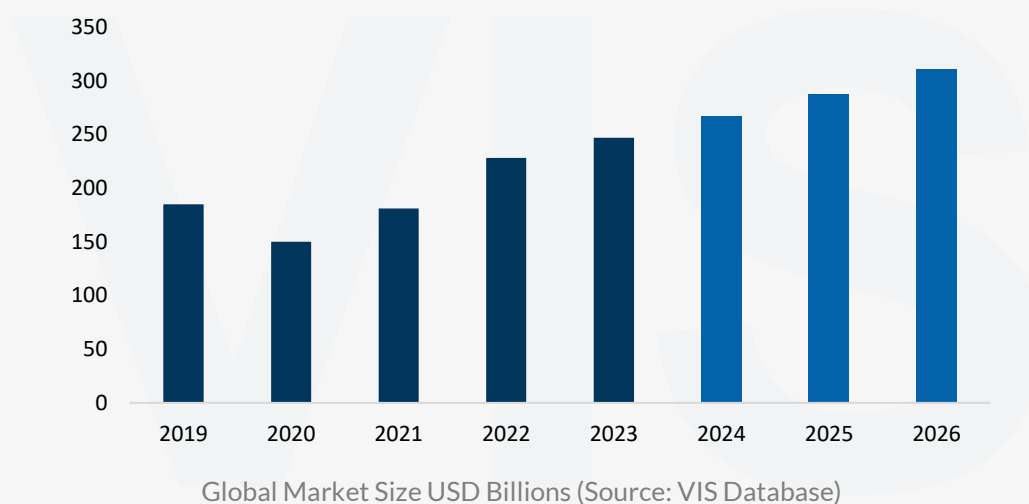
Looking ahead, the World Bank has projected Pakistan’s real GDP growth to recover to 1.7% in FY24¹ despite the country facing one of its worst crises due to poor policy choices combined with a series of shocks. The International Monetary Fund (IMF) also expects Pakistan to achieve a modest economic growth rate of 2.5 percent in FY24².

The World Bank suggests that Pakistan must address its human capital crisis and generate more fiscal space to finance improvements in service delivery and human capital development. However, political turmoil is expected to slow down growth in private demand. If inflationary pressure eases, growth is expected to pick up to 2.4% in FY25. These challenges call for deep, sustained reforms. The alternative of muddling through with short-term fixes and external financing is riskier and much harder to pull off.

WIRES AND CABLES INDUSTRY

GLOBAL

The global wires and cables market exhibited growth, reaching USD 247.24 bln in 2023 at a CAGR of 8.3%. The Russia-Ukraine war disrupted global economic recovery, causing economic sanctions, commodity price surges, and supply chain disruptions. Despite challenges, the wires and cables market are anticipated to grow to USD 310 bln by 2026 at a CAGR of 7.9%. The industry faces obstacles such as trade restrictions impacting developed and developing economies,



¹ <https://profit.pakistantoday.com.pk/2024/01/11/world-bank-projects-pakistans-economic-growth-at-1-7-for-fy24/>

² <https://propakistani.pk/2023/07/13/imf-expects-pakistans-economy-to-grow-in-fy2024/>

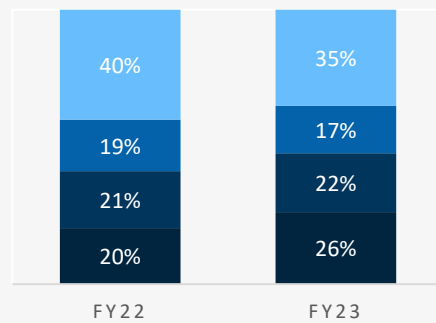
increased tariffs, and rising production costs. However, there is a growing demand for miniature connectors, driven by industries like mobile technology, aerospace, defense, and medical equipment. Asia-Pacific led the market in 2022, with North America following.

Major companies in the market include Berkshire Hathaway Inc., Sumitomo Electric Industries Ltd., Eaton Corporation, Prysmian Group S.p.A, TE Connectivity Ltd., Corning Incorporated, Amphenol Corporation, Commscope Holding Company Inc., Soutwire Company LLC, Nexan S.A.

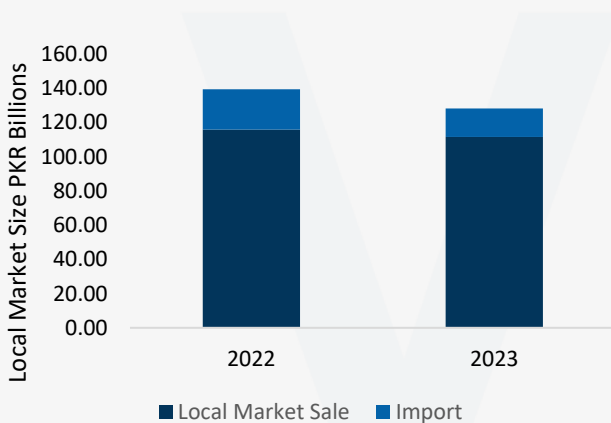
PAKISTAN

The Cable and Wire industry of Pakistan, encompassing insulated nonferrous wire, cable, fiber-optic, and other cable products, plays a crucial role in supporting the manufacturing and service sectors of the economy. The first company in the sector was set up in 1953, Pakistan Cables. Over the years, it has expanded, with key players like Newage Cables (1956), and Fast Cables (1985) contributing to its growth. Industry exhibits high concentration and is intricately linked to the performance of other sectors within the economy. Around 60-65% of market share is held by local manufacturers, with remaining market split between importers and unregulated manufacturers with current market size of ~USD 506 mln (FY22: ~USD 632 mln). Loss in value is mostly on account of local currency depreciation, however, there was a noted decline in volumes as well.

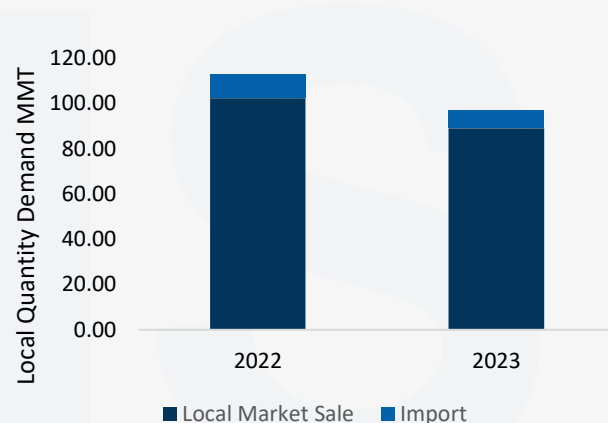
■ Fast Cables ■ Newage Cables ■ Pakistan Cables ■ Others



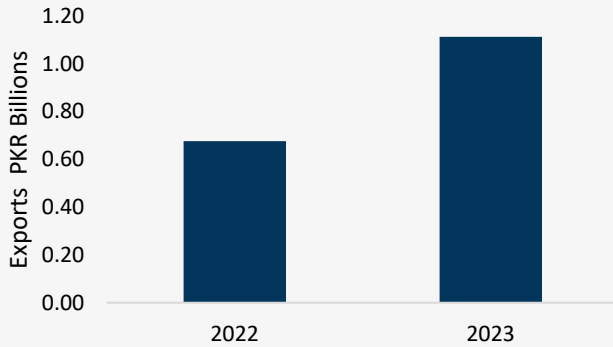
Local Market Share (Source: VIS Database)



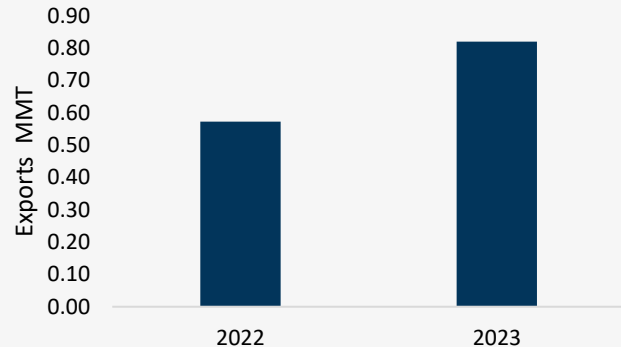
Local Market Size and Value (Source: PBS, VIS Database)



Local Market Size and Value (Source: PBS, VIS Database)



Value of Exports (Source: PBS, VIS Database)



Quantity Exports (Source: PBS, VIS Database)

Approximately 60% of the current market share is concentrated among three companies: Fast Cables (~26%), Newage Cables (~22%), and Pakistan Cables (~17%). The remaining market share is predominantly distributed among importers, including both regulated and unregulated entities, while the rest is served by numerous small to medium-sized manufacturers.

The local industry composes of the following segments and with approximate market shares:

1. Building wire and cables – ~25%
2. Power wire and cables – ~25%
3. Fiber-Optic cables – ~20%
4. Telephone wire and cables – ~10%
5. Electronic wire and cables – ~10%
6. Other insulated wire and cables – ~10%.

SECTOR DRIVERS

GLOBAL

Technological advances in the communication industry, particularly in fiber optic networks, coupled with rising investments in high-capacity network infrastructure and wired broadband technologies, are key drivers for the wires and cables market. This is notably seen in the growing demand for fiber optic cables due to their ability to support higher bandwidths and faster data transmission compared to standard coaxial cables.

PAKISTAN

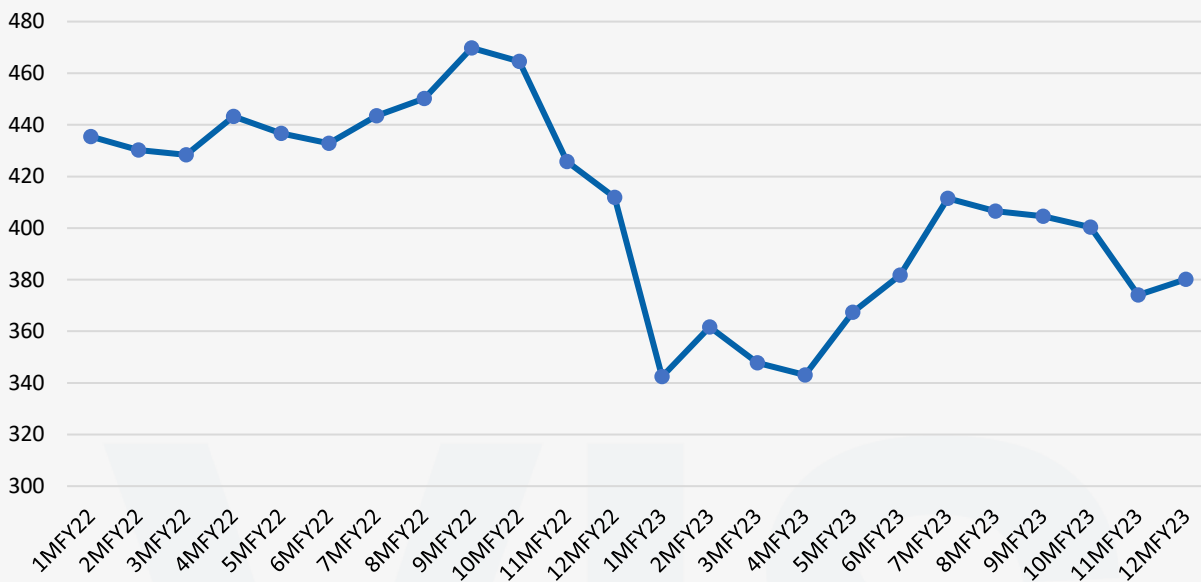
Pakistan is the sixth most populated country in the world, which is ever-growing, supporting demand for housing, energy, automotive and other industries in the long-term.

SECTOR CONSTRAINTS

GLOBAL

Rubber and chemicals derived from plastic, such as PVS grains, are the basic materials used to make cables. Silicone rubber and fluorine plastic account for most organic polymer substances, despite copper being necessary for wires. An increase directly influences the profit margin of the producers of cables in the price of raw materials, particularly copper, which limits market expansion. Since major nations began to reopen their economies, the price of raw materials used to make cables has increased significantly.

Global copper prices remained volatile over the period under review. Initially, prices surged to USD 470/lbs in 9MFY22 due to supply disruptions caused by the Russian-Ukraine war. Subsequently, ore prices experienced a notable decline, bottoming out at USD 342/lbs by 1MFY23 amid the global economic downturn, which dampened overall demand. However, copper prices underwent a recovery phase between 4MFY23 and 7MFY23, albeit remaining notably lower than the FY22 peak. Throughout FY23, copper prices averaged around USD 377/lbs.



Global Copper Ore Prices USD/lbs (Source: Bloomberg)

Moreover, many developed and developing economies are imposing restrictions on free trade, which are expected to hinder the growth of the wires and cables market going forward. After the start of the Russia-Ukraine war the US and its allies imposed significant restrictions on trade with Russia. The country's copper mine production was estimated at a million metric tons in 2022³. Moreover, as geopolitical rivalry continues to pick up between China and the US, further restriction on trade with China can be expected. China is the world's third-largest producer of copper accounting for ~8% of the world's copper mine production.

³ <https://www.statista.com/statistics/1182562/copper-mine-production-russia/>

PAKISTAN

1. Volatility in metal prices:

The prices of rods, wires and cables are linked to prices of copper and aluminum in global markets. Both metals are actively traded on London Metal Exchange (LME) and prices are determined at LME based on demand and supply dynamics. Fluctuations in prices of both metals have a direct impact on prices of wire and cables products.

2. Currency Depreciation risk:

As metals copper and aluminum are imported from foreign markets, the companies experience losses when Pakistani Rupee depreciates. Ability to translate the impact of currency depreciation to consumers in the form of higher prices determines the profit margins of the companies.

3. Competition from the unorganized sector:

The industry is subjected to the threat of counterfeit and low-quality products from the unorganized sector. Moreover, tax evasion is also prevalent within the unorganized sector as the sector is mostly undocumented; this practice results in cost advantage for the informal sector.

4. Competition from imports:

Chinese imports are a viable threat as they are cheaper because of extra incentives and lower priced raw materials that China offers its companies.

SECTOR OUTLOOK

OVERALL ASSESSMENT/OUTLOOK: STABLE

Going forward, growth potential in the sector is largely dependent upon normalization of the economy and recovery of the automotive and construction sectors. Moreover, exports in the industry hover around USD 4.5 mln (FY22: USD 3.8 mln). Capitalizing on the high demand for cable and wiring in the Middle East—fueled by an ~USD 850 bln construction sector investment—Pakistani manufacturers have an opportunity to expand their export market by cultivating relationships with end-users in this region.

Overall outlook of the industry is considered “Stable”, with demand support from continuously increasing population growth and urbanization and potential to increase exports in the region.

VIS RATING UNIVERSE

VIS Credit Rating Company Limited's rating universe includes two companies, both falling within the Single A (A+, A, A-) long-term rating band, with short-term ratings ranging from A-1 (A-One) to A-2 (A-Two). Long-term ratings in the Single A band denote good credit quality; protection factors are adequate. Risk factors may vary with possible changes in the economy. Short-term rating of A-1 signifies high certainty of timely payment; liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor. Meanwhile short-term rating of A-2 indicates

good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

Summary of VIS Wires and Cables Ratings Universe					
Company	Long-term Rating	Short-term Rating	Outlook	Action	Last Rating Date
Pakistan Cables Limited	A	A-1	Negative	Maintained	1 August 2023
Fast Cables Limited	A-	A-2	Stable	Reaffirmed	4 December 2023

RATING SCALE & DEFINITIONS

Rating scale and Definitions may be accessed at (<https://docs.vis.com.pk/docs/VISRatingScales.pdf>)

REFERENCES

- Pakistan Economic Survey
- Pakistan Bureau of Statistics
- International Monetary Funds
- World Bank Database
- Bloomberg
- Research and Markets
- The Business Research Company
- Global Data
- Statista
- Precedence Research

RESEARCH & PUBLICATIONS

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Jahangir Kothari Parade (Lady LLOYD Pier) Inspired by Her Excellency, The Honorable Lady Lloyd, this promenade pier and pavillion was constructed at a cost of 3 Lakhs and donated to the public of Karachi by Jahangir Kothari to whose genrosity and public spirit the gift is due. Foundation stone laid on January 5, 1920. Opened by Her Excellency, The Honorable Lady Lloyd on March 21, 1921.

Dome: A roof or vault, usually hemispherical in form. Until the 19th century, domes were constructed of masonry, of wood, or of combinations of the two, frequently reinforced with iron chains around the base to counteract the outward thrust of the structure.

Origins: The dome seems to have developed as roofing for circular mud-brick huts in ancient Mesopotamia about 6000 years ago. In the 14th century B.C. the Mycenaean Greeks built tombs roofed with steep corbeled domes in the shape of pointed beehives (tholos tombs). Otherwise, the dome was not important in ancient Greek architecture. The Romans developed the masonry dome in its purest form, culminating in a temple built by the emperor Hadrian. Set on a massive circular drum the coffered dome forms a perfect hemisphere on the interior, with a large oculus (eye) in its center to admit light.

VIS Credit Rating Company Limited is committed to the protection of investors and offers a blend of local expertise and international experience to serve the domestic financial markets. With its international reach, VIS is positioned to aim for an international mark. In this regard, the global experience of our international affiliates and partners have been invaluable towards adding depth to our ongoing research endeavors, enriching us in ways, that enable us to deliver our responsibilities to the satisfaction of all investors. The edifice of the Jahangir Kothari Parade has stood proudly through the years and is a symbol of our heritage. Its 'Dome' as the most stable of building structures, exemplifies architectural perfection. Committed to excellence, VIS continues its endeavour to remain an emblem of trust.

INTERNATIONAL

Affiliates

Islamic International Rating Agency – Bahrain – iira.com
 Credit Rating Information & Services Ltd. – Bangladesh – crisibd.com

Collaborations

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